

Company Name: Hormel Foods

Company Ticker: HRL US

Date: 2008-11-25

Event Description: Q4 2008 Earnings Call

Market Cap: 3,850.39

Current PX: 28.56

YTD Change(\$): -11.92

YTD Change(%): -29.447

Bloomberg Estimates - EPS

Current Quarter: 0.541

Current Year: 2.300

Bloomberg Estimates - Sales

Current Quarter: 1717.167

Current Year: 7093.143

## Q4 2008 Earnings Call

### Company Participants

- Kevin C. Jones, Director of Investor Relations
- Jeffrey M. Ettinger, Chairman, President and Chief Executive Officer
- Jody H. Feragen, Senior Vice President and Chief Financial Officer
- <Q>

### Other Participants

- Robert Moskow
- Timothy Ramey
- Diane Geissler
- Farha Aslam
- Christina McGlone
- Ann Gurkin
- Michael Hamilton
- Christopher Bledsoe

## MANAGEMENT DISCUSSION SECTION

### Operator

Ladies and gentlemen, thank you for holding and welcome to the Hormel Foods Fourth Quarter Earnings Conference Call on the 25th of November 2008. Throughout today's recorded presentation all participants will be in listen-only mode. After the presentation, there will be an opportunity to ask questions. [Operator Instructions].

I will now hand the conference over to Mr. Kevin Jones. Please go ahead, sir.

### Kevin C. Jones, Director of Investor Relations

Good morning. Welcome to the Hormel Foods Conference Call for the fourth quarter of fiscal 2008. We released our results this morning before the market opened around 6:30 AM Central Time. If you did not receive a copy of the release, you can find it on our website at [www.hormelfoods.com](http://www.hormelfoods.com) under the Investors section.

On our call today is Jeff Ettinger, Chairman of the Board, President and Chief Executive Officer; and Jody Feragen, Senior Vice President and Chief Financial Officer. Jeff will provide a review of the operating results for the quarter and the year. Then Jody will provide detailed financial results for the quarter and the year. Jeff will then provide an outlook for fiscal year 2009. The line will be opened for questions following Jeff's closing remarks.

An audio replay of this call will be available beginning at 11:00 AM Central Time today, November 25, 2008. The dial-in number is 800-405-2236 and the access code is 11118122. It will also be posted on our website and archived for one year.

Before we get started with the results of the quarter, I need to reference the safe harbor statement. Some of the comments made today will be forward-looking and are made under the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from those expressed in, or implied by, the statements we will be making.

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Among the factors that may affect the operating results of the company are fluctuations in the cost and availability of raw materials and market conditions for finished products.

Please refer to pages 26 through 31 in the company's 10-Q for the fiscal quarter ended July 27, 2008 for more details. It can be accessed on our website.

Now, I'll turn the call over to Jeff.

## Jeffrey M. Ettinger, Chairman, President and Chief Executive Officer

Good morning. Results for our fourth quarter were mixed. Top line growth was strong with sales for the quarter reaching \$1.86 billion, up 12% from the prior year and up 10% excluding acquisitions. However, our bottom line results were clearly disappointing to us. Earnings per share for the quarter were \$0.50 compared to \$0.73 last year, a decrease of 32%. Included in these results was a \$20 million investment loss in the company's rabbi trust.

For the full year, sales were 6.75 billion, up 9% from last year and up 7% excluding acquisitions. Earnings per share for the full year were \$2.08, down 4% from last year. Total segment operating profits were up 6% from a year ago.

Without question, we are in a unique and challenging economic environment. Demand has been impacted by the trend to more at-home dining and through changing consumer preferences at retail. These circumstances, coupled with spikes in certain raw material costs, took a toll on our earnings this quarter. Nevertheless, we had some positive highlights during the quarter as well.

I will now take you through each of the segments. For our Grocery Products segment, dollar sales were up 6% and segment profit was down 3%. For the year, sales were up 8% and segment profit was up 5%.

As has been widely reported in the media, sales of the SPAM family of products were up solidly during the quarter. I am also pleased to report that other core items such as HORMEL chili, DINTY MOORE stew and Mary Kitchen hash also experienced strong dollar sales and volume growth.

For Grocery Products on the flip side, sales of HORMEL COMPLEATS microwave meals slowed during the quarter, attributable to the combination of higher pricing and apparent changes in consumer buying preferences. In addition, margins for several Grocery Products items were pressured during the quarter, primarily due to higher beef and pork trim costs.

The Refrigerated Foods segment capped off a strong year with a solid fourth quarter, reporting 11% higher sales, up 9% excluding acquisitions, and 12% higher segment profit. For the full year, sales increased 8%, 4% excluding acquisition, and segment profit increased 22%. Declining hog prices and favorable cutout values were the primary drivers of earnings growth for this segment during the fourth quarter.

In our Meat Products group, products experiencing strong growth during the quarter included Natural Choice deli meats, HORMEL Refrigerated Entrees and HORMEL Always Tender flavored pork loins. However, margins on some Meat Products items were pressured by spiking input costs that we were not able to offset with pricing.

Our Food Service division experienced flat sales, as they were affected by the industrywide declines in away-from-home dining. Our Farmer John group saw improved results during the quarter primarily as a result of their fresh pork operations.

For Jennie-O Turkey Store, the 44% drop in Q4 operating profit was about what we expected, but that did not make it any easier to absorb in terms of its effect on our companywide results. Sales dollars were up 11% reflecting a combination of necessary price advances and some volume gains, and for the full year sales were up 9% while segment profit was down 27%.

An industrywide excess supply of commodity turkey breast meat and lower demand has resulted in a stagnant market. Higher input costs for feed and fuel also contributed to the decline in operating profit during the quarter at Jennie-O

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Turkey Store. The retail segment of Jennie-O Turkey Store continues to be a bright spot with volumes and sales dollars increasing during the quarter. In particular, sales of Jennie-O Turkey Store tray pack products and turkey burgers continued to register impressive sales gains.

The Specialty Foods segment had an excellent quarter with sales, volume, and segment operating profit all experiencing double-digit increases. Operating profit was up 49% and dollar sales were up 20%, up 16% excluding acquisitions, with all three sub business units contributing to these gains. For the full year operating profit for Specialty Food increased 14%, and dollar sales were up 12%, up 11 excluding acquisitions.

Results in Specialty Products were driven by increased sales in contract manufacturing and savory ingredients. Diamond Crystal's results were led by higher nutritional sales volume and the Boca Grande Foods acquisition. Country Foods International finished off an excellent year with significant gains in tonnage and sales in blended ingredients, nutritional powders and ready-to-drink products.

In the All Other segment, our International business had a soft ending to an otherwise excellent year. In the fourth quarter, operating profit was down 8% while dollar sales were up 34%. For the full year, sales were up 27% and operating profit was up 17%. Results in the quarter were adversely impacted by higher raw material cost and the strengthening dollar against key currencies. Positives for International during the quarter were strong exports of fresh pork and strong sales of the SPAM family of products.

At this time, I will turn the call over to Jody Feragen to discuss the financial information relating to the fourth quarter and fiscal 2008.

### **Jody H. Feragen, Senior Vice President and Chief Financial Officer**

Thank you, Jeff. Good morning. Earnings for the fiscal 2008 fourth quarter totaled 67.8 million or \$0.50 per share, compared to 101.2 million or \$0.73 per share a year ago. Earnings for the 12 months of fiscal 2008 totaled 285.5 million or \$2.08 per share, compared to 301.9 million or \$2.17 per share a year ago.

As Jeff alluded to at the outset, the rabbi trust losses were the primary driver of our earnings miss for the year. This trust was explained in the earnings release. Those investment losses do not affect the company's cash flow nor is the company under any obligation to recapitalize the trust fund.

Dollar sales for the fourth quarter totaled 1.9 billion compared to 1.7 billion last year, a 12% increase. Acquisitions added about 23 million to the top-line in the fourth quarter.

For the full year dollar sales increased 9% to 6.8 billion. Acquisitions added 130 million to the top-line for the full year. Volume for the fourth quarter was 1.2 billion pounds, up 3% from fiscal 2007. Acquisitions added about 15 million pounds to the quarter. Volume for the full fiscal year was 4.7 billion pounds, up 5% from fiscal 2007. Acquisitions added about 88 million pounds to the full year.

Our selling and delivery expenses in the fourth quarter were 11.4% of sales this year compared with 11.6% last year. Year-to-date selling and delivery expenses were 12.4% of sales compared to 12.5% last year. We expect selling and delivery expenses to be about 12.2% of sales for fiscal 2009, as lower fuel costs are offset by higher marketing expenses.

Advertising expenses were 1% of sales for the quarter compared to 0.8% last year. While year-to-date advertising expenditures increased in absolute dollars, the expenses were 1.5% of sales, even with fiscal 2007. Advertising expenditures for fiscal 2009 are expected to exceed those of fiscal 2008, as we continue media campaigns to support our brands.

Our general and administrative expense was 2.3% of sales for the quarter the same as last year's fourth quarter. For the full fiscal 2008, general and administrative was 2.6%, even with last year. We expect general and administrative expenses to be about 2.8% of sales in fiscal 2009.

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The dramatic decline in investment income was attributable primarily to the performance of our rabbi trust asset. The decline reflects the overall challenging investment environment. We experienced a \$20 million investment loss, most of which occurred in the last month of the quarter, compared with a \$5 million gain for the same quarter a year ago. For the full year, investment losses were about \$29 million.

Interest expense for the quarter was \$7.4 million compared to 7.7 million last year. Year-to-date interest expense was 28 million compared to 27.7 million last year. We expect interest expense to be approximately \$29 million for fiscal 2009.

Total long-term debt at the end of the quarter was \$350 million and we ended the quarter with \$100 million outstanding on our short-term line of credit related mostly to working capital.

Depreciation and amortization for the quarter was \$31 million compared to \$33 million last year. For the full year, depreciation and amortization was 126 million compared to 127 million last year. We expect in 2009 that depreciation and amortization will approximate 130 to 135 million.

Our effective tax rate in the fourth quarter was 41.9% versus 34.9% in fiscal 2007. This higher rate is attributed to the mark-to-market losses in the rabbi trust, which are not tax deductible. The year-to-date effective tax rate is 37.6% compared to 35.7% last year. For fiscal 2009 we expect the effective tax rate to be between 36 and 37%.

Capital expenditures for the quarter totaled \$30 million compared to \$29 million last year. For the full year, capital expenditures totaled 126 million, even with last year. For fiscal 2009, we expect capital expenditures to approximate 140 to \$150 million mainly related to completion of our new production plant in Dubuque, Iowa.

Given changes in consumer preferences, we intend to use this plant for both microwave and canned product manufacturing. As we stated in our earnings release, we will continue to be conservative in managing our capital. That said, our priorities continue to be using our cash flow to grow our business and return cash to our shareholders. We are more cautious today given the uncertainty in the credit markets, but we do remain confident that adequate capital will be available to meet our strategic growth needs.

The basic weighted average number of shares outstanding for the fourth quarter and full year was 135 million. The diluted weighted average number of shares outstanding for the fourth quarter was 136 million versus 137 million for the full year. We repurchased 367,000 shares of common stock during the fourth quarter at an average price of \$35.62. We have 2.3 million shares remaining to be purchased from the 10 million share authorization in place. As I stated before, we will continue to be strategic in repurchasing shares of our stock, as a use of our free cash flow.

We processed 2.4 million hogs in the quarter, even with last year. For the full year we processed 9.5 million hogs compared to 9.4 million last year. The average live hog cost in the fourth quarter was \$57 per live hundredweight just below our forecasted range of 58 to \$62 that we called out during our third quarter conference call. This compared with an average live base of \$49 in the same quarter last year.

At this time, I will turn the call back over to Jeff to discuss the outlook for fiscal 2009.

### **Jeffrey M. Ettinger, Chairman, President and Chief Executive Officer**

Thanks, Jody. As set forth in our release, we anticipate a combination of external factors to impact our business in fiscal 2009. The challenges we face include an oversupply of turkey breast meat and higher commodity cost during the early part of the year at Jennie-O Turkey Store, the prospect of increasing hog prices as supplies gradually decline, and the uncertain economic environment affecting consumer demand. Opportunities include the flexibility that our strong balance sheet provides, the stability of our balanced model, and the continued momentum and success of our value-added products.

On this latter point, we remain on track to achieve our \$2 billion of new products sales by 2012 from sales of products introduced since the year 2000. After assessing these factors and our business plans for the upcoming year, we have established our fiscal 2009 guidance range at \$2.15 to \$2.25 per share versus the \$2.08 per share results we announced

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today for 2008.

Consistent with my comments in our August conference call, our first half earnings will likely be down in comparison to our strong start in fiscal year 2008. We do expect to rebound sharply in the second half, allowing us to achieve higher earnings for the full year in 2009.

I remain confident about our future notwithstanding the difficulties posed by various macro factors. We have a great team of experienced, dedicated employees. We have a strong portfolio of leading brands within their categories. We are still the leader of value added meals that feature protein. Our products have proven to be highly relevant to consumers during hard times as evidenced by our continued sales growth. We operate from a solid financial position, which not only gives us the flexibility to weather hard times, but also positions us to make strategic investments in areas that can generate additional profitable growth for our company.

Finally, we believe our stock is under-valued and that investors with a long-term outlook seeking a quality investment would be well-served to give serious consideration to an investment in our company.

At this point, I would like to turn the call over to the operator for questions and answers from our participants.

## Q&A

### Operator

Thank you sir. [Operator Instructions]. First question comes from Robert Moskow. Please state your company name followed by your question.

**<Q - Robert Moskow>**: It's Credit Suisse, thank you. I guess two questions, one is, Jeff, I remember the -- in 2002 and 2003 when there was a glut of protein on the market because exports to Russia of chicken dried up, and now we are in the situation where the currency has strengthened and you could see probably a broader issue there. And I wanted to know if you think that Hormel will face the same kind of pressures today that it felt back then? And then secondly, maybe I missed it, but can you give a little more color on what you are doing with your COMPLEATS business and what your pace of investment is now and whether you are going to slow down or not, and to maybe refocus on cheaper canned foods instead? Thanks.

**<A - Jeffrey Ettinger>**: Hey, Robert. First of all, in terms of the protein and the export situation, we are obviously at this point coming off of historically very strong export markets. We are not counting on those types of markets in our 2009 expectation. We've already seen somewhat of a downturn. At this point, we are not seeing a back-up of the raw materials that we are putting out into the market either through our turkey or pork operations. Time will tell whether, either because of currency issues or because of trade issues, if any of these trading partners put us back into a mode that would be more like '02 and '03, but our best expectation right now is for a slowdown, but nothing precipitous.

In terms of some color on the COMPLEATS product line, that line is obviously coming off of tremendous momentum over a several year timeframe. We continue to feel that the item is an excellent consumer proposition both in terms of value and in terms of convenience. I concede that we've been a little surprised by the turnaround in the business over the past quarter or even a couple of months beyond that, clearly seems to be having an economic effect in terms of the consumer's immediate reaction to the recession. We've seen in the case of some of our heavier consumers, perhaps before they were throwing six of these items into the cart, and now they are throwing three or four in. Clearly any time you go to a convenience item, there is an element that you are potentially trading convenience for price and that maybe you could see some migration back to some of the canned items that some of these items are derived from.

I would point out however in the COMPLEATS franchise we have very -- a number of the options are items that really you can't get in a can. We have pork roast, we have beef roast items, we have whole muscle chicken breast items. And so, we are kind of retooling our strategy there. We think we have good plans in place in 2009 to support both the red label traditional COMPLEATS line and the newer, more health-oriented green COMPLEATS items that we introduced in the market this year. We don't expect the 30, 40, 50% growth that we had been experiencing, but we do expect to

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turn it around and have a positive year on COMPLEATS in 2009.

**<Q - Robert Moskow>**: Okay. And then lastly you said that your stock is undervalued and maybe just give us a little more color on how you intend to use your cash flow over the next 12 months in terms of buying back that stock and how quickly you can do it?

**<A - Jody Feragen>**: I guess I'll step in and take that call. Certainly as we were moving into our blackout period at the end of the fourth quarter, there was significant amount of turmoil in the credit markets and access to capital certainly was uncertain at that point. We did not have a repurchase plan in place during the blackout period. Given that, now that we've passed those six weeks and we are seeing that the credit markets, while they are still very uncertain, seem to have returned to a bit more normalcy. And I would expect that if we come out of this call and into an open period where our stock is trading at these levels that we would take advantage of that.

**<Q - Robert Moskow>**: And...

**<A - Jeffrey Ettinger>**: And, Robert, on the valuation side, I mean time will tell I guess where the total market settles in in terms of what are appropriate multiples. I guess we look at a company that still has very solid momentum and its sales that when all is said and done ended up with a 4% decline in earnings even counting our rabbi trust loss, but has a stock that's down 20 to 30% as being a good proposition for somebody in the long run.

**<Q - Robert Moskow>**: Okay. And have you said how big your share repurchase program is or are you going to the Board to make a recommendation on how big it could be?

**<A - Jody Feragen>**: Right now we have the 2.3 million shares under the original authorization remaining.

**<Q - Robert Moskow>**: Okay. So you're -- are you going to go back and ask for a bigger authorization?

**<A - Jeffrey Ettinger>**: We'll have that discussion with the Board as we get closer to finishing out the authorization that's in place.

**<Q - Robert Moskow>**: Okay, all right. Well, thank you very much.

## Operator

Next questions come from Tim Ramey. Please state your company name followed by your question.

**<Q - Timothy Ramey>**: Good morning, D.A. Davidson.

**<A - Jeffrey Ettinger>**: Hi, Tim.

**<Q - Timothy Ramey>**: Hi, Jeff. Did you make an assumption on the rabbi trust for your 2009 guidance or if you just assume neutral, how do we think about that? And I think, Jody, you mentioned that the mark there is not tax deductible, would you confirm that it was about \$0.15 a share then in EPS for their -- for your 4Q?

**<A - Jody Feragen>**: For the fourth quarter?

**<Q - Timothy Ramey>**: Yeah.

**<A - Jeffrey Ettinger>**: Fourth quarter?

**<A - Jody Feragen>**: Hang on, it was 20 million. Are you looking at the delta?

**<Q - Timothy Ramey>**: No, I'm not looking at the delta. The delta would be even bigger, wouldn't it, yeah?

**<A - Jody Feragen>**: Yeah, it's not as simple as that because you'd have to go back to and recalculate, but you get the idea that it was a significant impact. For 2009, obviously I'm not planning on having another \$29 million. I do have built into the guidance range some further deterioration in the rabbi trust. I'm hoping that doesn't come to pass.

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**<Q - Timothy Ramey>**: Okay. Is there anything you can do to hedge that or would you do anything to hedge that?

**<A - Jody Feragen>**: Obviously if I sold the assets today, I'm only realizing things that now are just paper losses, so a little patience and wait for the market to get back and then we do have a plan in place.

**<Q - Timothy Ramey>**: Okay. And, Jeff, you didn't really talk about any benefit to gross margin, or if you did I missed it, for '09, but do you anticipate gross margin benefit -- I know you might be thinking about paying higher protein prices later in the year, but a lot of other things have certainly moved your direction.

**<A - Jeffrey Ettinger>**: I think we will see that, if you can look at discrete quarters in the later part of the year. It's kind of a hard read on a full year basis given what we're starting with. I mean we still have the carryover effect of the 22-week buildup on the turkey inventories. We also have a very significant kind of buildup in terms of commodity meat values in that part of the business that as we talked about in the last call need to work our way through. But clearly I mean the clouds are clearing in that sense and that we should be in a much better position if the current input cost environment holds and if we get out of the oversupply issue, kind of gets back to Robert's first question, that would be -- the one wildcard would be if exports were to be severely diminished and that could harm that. But our outlook right now is, as I mentioned earlier, for some decline in exports, but nothing calamitous.

**<Q - Timothy Ramey>**: And this may be a hard question to answer, but if you think about say some of the stunning results in Tyson's pork business recently, your results in the 4Q were good, but not stunning. What do you -- how would you contrast that? That will be my last question, thank you.

**<A - Jeffrey Ettinger>**: That's fine. Our Refrigerated Foods business had a really wonderful year overall. We're expecting 2009 to be a more challenging year for them, especially when you look at the comps that they're going out -- right out of the gate against at a 50% up quarter in Q1 and over 20% in Q2. Right now the kind of overall cutout values as we speak are not as favorable as they were a year ago and we have the added pressures of -- we have a pretty significant food service component in our business that's not performing as well as it would have in a year ago's timeframe. So overall clearly we're very happy with the year. In terms of the quarter, some of their value-added businesses experienced some of these same kind of spikes in certain raw materials that compressed margins in some of the value-added areas. I couldn't speak to how that impacted Tyson, but clearly that was something that pulled down our results for the quarter and that has us being cautious about the 2009 outlook for Refrigerated.

**<Q - Timothy Ramey>**: Thanks, Jeff.

## Operator

Next questions come from Diane Geissler. Please state your company name followed by your question.

**<Q - Diane Geissler>**: It's Merrill Lynch -- still.

**<A - Jeffrey Ettinger>**: Hi, Diane.

**<Q - Diane Geissler>**: Good morning. Can I -- just on the change in the direction of the plant, my timetable was that you had -- you were scheduled to get that up and running later next year. I have November 2009 and maybe that's -- maybe my date is incorrect, but I guess I just am curious if you're switching now to some production there will be canned goods. Is that something you can bring on earlier or are you anticipating kind of a lengthy recession here that by the time you bring it up online late next year we may already be -- things may already be improving and therefore wouldn't necessarily want that much exposure to canned goods. So if you could just sort of talk us through your thought process there, in regard to the timing?

**<A - Jeffrey Ettinger>**: Very fair questions, Diane. Timing-wise it's not a significant change. You are correct that we had announced the plant would open in November 2009. Our assessment right now, now that we've had several months of construction and now that we're in the process of ordering the different types of equipment that would need to go in, is it will likely come online in January 2010, so we're talking maybe a couple months at the most difference. The walls are already up. The roof will be on by the end of this year. There really isn't any way to accelerate the opening of the

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overall plant, and so that would still be our game plan whether we put canning franchises in there or microwave.

In terms of our assessment of the opportunity, we really have seen excellent momentum in many of our canned items that predates the recession starting. I mean we put a lot of effort against new product development in some of these franchises. We've done a lot with both trade promotion and our consumer advertising campaign. And yeah, we do believe that there is a benefit clearly from the economic times we're in as well. So we've been having to run a lot of our existing Grocery Products facilities very hard on Saturdays and Sundays in many of the weeks. And so we do look at -- we took a look at the fact that the COMPLEATS momentum wasn't what we had originally anticipated when we first announced the plan. We still feel we need the one new production line and that will be a more efficient line for us than what we have been producing it and we do expect that business to grow in '09, but we think we'll have several options of different product lines we could put into that facility that would be in the canned side of the business that would benefit us over a long period of time. We wouldn't put a line in there if we felt it was just going to be for a few months benefit.

**<Q - Diane Geissler>**: Okay, great. I appreciate the color there. And then, I guess in your press release, on the outlook side, you did talk about potential decline of supply and I am assuming you mean hogs and beef -- I mean we saw the cattle on feed number, I guess late last week, that was a little bit lower than what the trade was looking for. What are your expectations about how the supply of market-ready animals and -- will be as we head through the year, so if you -- maybe quarter-by-quarter if you have an overview there of what you are looking for on the supply side?

**<A - Jeffrey Ettinger>**: I'll let Jody speak to the quarters, I can you give you the overall. I mean the picture we are looking at is about a 3 to 4% decline in both the turkey side of the business and the pork side of the business. Obviously in turkey we have more direct control over that supply system and it started with the amount of poulters we placed in the system back last summer and so we have pretty good confidence of what numbers we will see in that regard. On the pork side, we have been paying close attention to overall sow liquidation, which was occurring during the later part of the summer and which has slowed down quite a bit lately and that's our best read that our best guess right now is probably more in spring to late winter's when you will see that come on and, Jody, if you want to add some detail to that, that would be great.

**<A - Jody Feragen>**: That's absolutely right. Our Group is thinking that the March, April timeframe and certainly while we have seen actually the sow numbers prior to more recent times decline, we are also seeing productivity improve. So you get -- that mitigates some of that decline, but Jeff's right in the overall and I would expect that sometime toward the end of our second quarter that we would start seeing the numbers coming to market decrease.

**<A - Jeffrey Ettinger>**: I guess the other reason we pointed it out is when you track our tonnage numbers for total Refrigerated Food in January next year you will likely will see a down year based on these input costs. We still expect to be able to push our value-added businesses within these franchises.

**<Q - Diane Geissler>**: Terrific. And then I guess, Jody, could you give us an outlook on the hog costs in the first quarter?

**<A - Jody Feragen>**: I quit being a hog cost forecaster...

**<Q - Diane Geissler>**: You did better this quarter than you thought you were going to back in August?

**<A - Jody Feragen>**: There are so many moving pieces to that, that I think that you will get your sources from industry and that will be just as good as what I can do for you, Diane.

**<Q - Diane Geissler>**: Okay. Well, can you give us an idea about what you are looking for in terms of the guidance you have given?

**<A - Jody Feragen>**: And as far as the guidance we're given, we are looking at hog costs that would be above first quarter 2008.

**<Q - Diane Geissler>**: Okay. Thank you.



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Bloomberg Estimates - EPS  
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<A - Jody Feragen>: You bet.

## Operator

Next questions come from Farha Aslam. Please state your company name followed by your question.

<Q - Farha Aslam>: Good morning. Stephens Inc.

<A - Jeffrey Ettinger>: Hi, Farha.

<Q - Farha Aslam>: Hi. What is the size of the COMPLEATS business now?

<A - Jeffrey Ettinger>: Oh, it's good; it's 150 to \$200 million range.

<Q - Farha Aslam>: Okay. And, Jeff, you had mentioned that it was the economy that's slowing that business. You've also had new competitors enter that category. How would you characterize the impact of competitors versus economy?

<A - Jeffrey Ettinger>: At this point, we haven't seen as significant a competitor impact. There are new players in it, Del Monte has been in for most of the year, Conagra's Healthy Choice offerings has hit the shelf in isolated stores that may divert a feature to the new item versus our item that has been out there. But I think we've talked about before, we think it's a section that eventually in the store is going to be a large section and will be able to handle multiple players providing support to the category. So, really our best read right now is the bigger effect for us has been the economic issue. Obviously as we talked about before, we had to take pricing on the line and that's been a challenge to into this environment. But it's -- we really need to just sort through, how to get people back into looking at the convenience and flavor features of the items. And I guess our knowledge is that we're really not alone in this, it seems like most of the competitors we -- competitive information we see out there would indicate that others in these microwaveable or even frozen convenience meals are seeing at least short-term decline away from their categories as consumers react at least to the first stage of recessionary environment.

<Q - Farha Aslam>: And to continue on that theme, could you talk about how consumers are purchasing protein in your refrigerated space from kind of your fully cooked entrees all the way down, what trades are they making there?

<A - Jeffrey Ettinger>: Well the biggest trade we are seeing in refrigerated world would be obviously food service has seen a shift in volumes to the non-commercial side from some of their commercial operators and obviously just a downturn period. I mean our numbers for the year volumes were flat, that's a unit that historically has grown at an upper single digit range for us. We think they are still holding their own in terms of share in categories and they're doing a great job of innovating and seeing good growth still of the Café H's and Austin Blues and Natural Choice and those types of items. And so we are obviously pushing those right now. We are also seeing some migration kind of out of the service deli, particularly when you look at the turkey side of the business. That's part of why turkey breast meat is backing up on an industry basis and we have observed that in our business. Now in this service case, you pay for that service. So, as -- that's already a much higher ring item per pound than some of the equivalent items in a prepackage form and we've obviously been in a position where pricing had to go up with all the cost inputs going up as high as they have and so that's in some cases widened that gap even more, and so there has been some migration out away from that.

<Q - Farha Aslam>: And my final question is, do you expect commodity cost to be up in your turkey division in the fiscal first half? Is that reflecting grain hedges or how grain flows through the turkeys, could you share some detail on that front?

<A - Jeffrey Ettinger>: Sure, Farha. It's really a little bit of both. We clearly will have that expectation for the first quarter in terms of just sheer cost impact in the flow-through of costs and then we should start seeing some improvement in the second quarter, but we don't have an exact count yet as to what that measure will be. And then although we don't articulate exact hedge positions, we have stated in the past that we -- our policy would put us anywhere between 25 and 75% hedged on grain, and we do acknowledge that we have hedge positions in place right now that are above the current market and so that would factor into our overall guidance for that segment as well.

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<Q - Farha Aslam>: Okay. Thank you very much.

## Operator

Next questions come from Christina McGlone. Please state your company name followed by your questions.

<Q - Christina McGlone>: Good morning, Deutsche Bank.

<A - Jeffrey Ettinger>: Hi, Christina.

<Q - Christina McGlone>: Good morning. Jeff, I just wanted -- I wanted to talk maybe about Grocery, when I think about looking out -- trim costs have come down a lot, we should be seeing a greater supply of manufacturing in beef because of imports. And your mix does lend itself to economic weakness. So, I'm curious what is the offset, are we seeing more private label competition, is it more difficult to price, kind of what's offsetting the benefits that we see looking out?

<A - Jeffrey Ettinger>: Well, for starters, Christina, we have a pretty solid expectation for Grocery Products in 2009. We do feel that they have on-trend items that should benefit from both the consumer interest and from some of the cost factors you mentioned. During this last quarter, you mentioned trim costs for example, there was a very significant spike in trim costs that hurt not only their part of the business but Burke and some of the other areas where we use trim and raw materials for the meat items as well. That has settled way back down and so that's clearly in the rear view mirror now. And so, we have solid expectations for the unit going forward. They ended up generating a year -- full year increase in segment profit of about 5%, that's couple of years in a row that they've hit at that level and our expectation is that they should be able to deliver in the high-single digit level, which is kind of the typical norm of the packaged food competitive set.

<Q - Christina McGlone>: And in terms of private label competition, have you seen that heat up at all?

<A - Jeffrey Ettinger>: We've seen it in some categories. It's more significant than ever in salsa and it's been more significant in chunk chicken and chunk meat items. So, it varies by segment. It clearly has not harmed us at all in terms of some of our bellwether franchises like DINTY MOORE stew or SPAM luncheon meat or Hormel chili or Mary Kitchen hash. They are all very solidly up for the year and continue to have momentum all the way through the end of the year.

<Q - Christina McGlone>: Okay. And then looking at Jennie-O, when you last gave us guidance, it seems that they have been really aggressive cuts in turkey egg and corn has come down, and I guess you did talk about some of your hedges, but are you maybe more optimistic than you were or has something else come in on the negative side?

<A - Jeffrey Ettinger>: I guess I'm about the same. I mean, it just takes a while to turn that ship around in that industry. And so, we felt even as of last conference call that it was not going to be a early in the year that we saw immediate improvement, but in the long run those macro factors you mentioned should be favorable to turkey. We should see strengthening in price as the cut-backs roll through the various systems in the industry and we should see improvement on the grain side. The only other thing, outlook that's hard to know right now would be are today's grain markets going to hold. The corn has been tracking very closely with oil for the past 18 to 24 months.

At some point its own supply and demand equation may well kick in and we still do have the added challenge in this industry that ethanol today uses over 30% of the corn crop and has mandates in place to continue to use an even greater percentage of it. And so, that's something I'm -- we're mindful of and watching out for going forward. But overall I guess my outlook is still about the same which is that we should be in a better position with that business in the second half and heading into 2010.

<Q - Christina McGlone>: Okay. And then just last question, I was curious if there is an impact from country-of-origin labeling on your business?

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<A - Jeffrey Ettinger>: There is no financial impact. We clearly as anyone else has to in the industry are prepared to handle it, it's for us, it's a customer-specific item. So, we are prepared to have either a product of U.S.-only or a product of a mix of U.S. and Canada. Being in the upper midwest and not owning our own farms, we deal with the family farms in the region and historically they have brought in maybe pigs to raise in their systems and finish in the country, and those are considered than a mixed origin product. And so, we offer our customers, these are products that segregated with only products in the U.S. or the mixed-origin products and realistically the latter is going to be a more price competitive item for them. I mean, any time you do a special segregation whether it's for organic or natural, you name it, and you are adding some cost to the system. That's what the government has chosen to do and so we are in a position to be able to respond to it and handle it, but we don't see it having an impact on us economically.

<Q - Christina McGlone>: Okay. Thank you.

## Operator

Next questions come from Ann Gurkin. Please state your company name followed by your question.

<Q - Ann Gurkin>: Ann Gurkin with Davenport, good morning.

<A - Jeffrey Ettinger>: Hi Ann.

<A - Jody Feragen>: Good morning.

<Q - Ann Gurkin>: Just want to continue on with Jennie-O just a little bit, with the feed prices down and assuming they stay at this level, when do you think turkey prices would catch up with your input cost?

<A - Jeffrey Ettinger>: Probably in the later spring to early summer. I mean it's just really -- the one I'm more hedged on to be honest with you is the price side, I mean, the cost inputs as we've talked about are kind of a flow through and you see them coming. It's just harder to read. There is a fairly significant backup in cold storage, meat's just not moving right now, this isn't the time of year where breast meat does move very readily. And so, we will certainly have a recovered supply-demand outlook even by spring, but how long will it take to clear some of the prior product, that's the question, so I guess my best outlook would be late spring, early summer.

<Q - Ann Gurkin>: Okay. And then, in your Grocery Products segment in the past say four to six weeks, have you seen any significant change in either consumer buying, consumer behavior or competitive behavior either pricing or innovation or anything like that?

<A - Jeffrey Ettinger>: Nothing that we didn't talk about in the release or the script, that really was a phenomenon for most -- really the whole quarter, the shift away from microwave a little bit untoward, for us the canned items, but more a family-oriented item. Otherwise no, I don't -- there is nothing that's been going on just in the last few weeks that I could point to.

<Q - Ann Gurkin>: That's great. Thank you very much.

## Operator

Next questions come from Mike Hamilton. Please state your company name followed by question.

<Q - Michael Hamilton>: Good morning. Mike Hamilton, RBC.

<A - Jeffrey Ettinger>: Hi Mike.

<Q - Michael Hamilton>: First just a question coming back to repurchase for Jody, is there anything in your guidance that you are taking off the share repurchase this year?

<A - Jody Feragen>: Not significantly, no.

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**<Q - Michael Hamilton>**: Thanks. Jeff, could you talk a little bit about what you are seeing out of Farmer John, you made a couple of comments on the processing side, but what you are seeing at retail and what your tactical opportunities are here in the year ahead?

**<A - Jeffrey Ettinger>**: I am seeing improvement, but a business that still has a long way to go. They've done a very nice job of improving the presence of the brand in the marketplace. It is the share leader and we are starting to build our shelf positions to be more equivalent to what we deserve for the kind of share we have in the marketplace. I think their -- both in trade and consumer promotion efforts have been really quite strong. They have done a nice job in the last couple of years, building their food service franchise, and they have some excellent customers in that area. So, we're nowhere near the kind of positive EVA return we want to have on the investment we made in that company. But we're headed the right direction and we think they are doing the right things to get us there.

**<Q - Michael Hamilton>**: Finally, from me, anything in this environment that you are planning on doing on the cost take-out side?

**<A - Jody Feragen>**: Well, I can tell you that. Certainly with these challenging economic times and the amount that we have invested in some of our working capital, we are asking everyone to really focus on getting our working capital back in line, as well as any discretionary expenses, any capital expenditures that we can potentially wait on. We are taking looks at all those things. So, I think just like the consumers are today, we take that stance with the company.

**<Q - Michael Hamilton>**: Thanks for the help.

## Operator

Next questions come from Chris Bledsoe. Please state your company name followed by your question.

**<Q - Christopher Bledsoe>**: Good morning. It's Barclays.

**<A - Jeffrey Ettinger>**: Hi, Chris.

**<Q - Christopher Bledsoe>**: A couple questions. I know in COMPLEATS, it sounds like -- you are saying the ConAgra entrance there, Del Monte competition in there is maybe not such a big deal as the broader economic environment. But, I was wondering how much of an effect do you think you are seeing in that category from a more promotional pricing behavior in the frozen entrees category or is it really that there is little cannibalization of shelf stable by frozen?

**<A - Jeffrey Ettinger>**: I mean, if anything we've kind of felt -- we've benefited the other way around, I mean that clearly has been somewhat of a source of volume for us is to source away from frozen, because the product offers, especially in an office environment so many benefits in terms of where you store it, how long it takes to heat up, the consistency of heating, et cetera. So, no we really haven't seen the opposite occur, it seems to be more decisions that consumers are making about how many of the items to purchase at a given time and their value perception within our part of the shelf.

**<Q - Christopher Bledsoe>**: And then, if -- I am just thinking about other categories where you compete and kind of a deflationary drain and energy environment we've seen more recently, it seems like there are -- there could be some categories where there is a kind of misalignment in resolve to keep in place pricing. Are there any categories that are more specific to Hormel that are kind of watch points for you?

**<A - Jeffrey Ettinger>**: In terms of deflation you are saying?

**<Q - Christopher Bledsoe>**: In terms of competitors becoming more aggressive on pricing, because of the deflationary drain and energy environment?

**<A - Jeffrey Ettinger>**: I mean, our business with our balanced model, we kind of live in two worlds and so within the grocery arena, we've really been gauging our pricing to try to maintain margins within the categories, we've not pushed



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them -- we're not trying to widen our margins or enhance our overall profitability on pricing. And, so, that will continue going forward on the grocery side.

On the meat side, you've got a combination of -- there are some items that kind of move with markets no matter what environment you're in, the ham and bacon world, within those arenas fresh pork really move on a market basis and are going to be much more based on supply and demand of that raw material than they are overall energy costs or anything else.

And, then, secondly, for whatever ability, the packaged food side has had in getting pricing to match the cost -- I mean, I think it's very clear that the protein side of the business has had a heck of a time, given our supply and demand situation, to be in the same boat. And, so, when we -- that's something we explain to our customers and we go in and are still seeking pricing on certain items, we can just point to the results of not only us but really all of the other major players that's in the protein segment that the supply and demand equation of our meat complexes did not allow us to take the pricing to fully cover our cost. And, so, we're still a little bit in the catch-up mode here and I think we'll continue to be in through the early part of '09.

**<Q - Christopher Bledsoe>**: Okay. And, then, in looking at the balance sheet and the priority for uses of cash, it would seem to me that there is probably no shortage of cheap protein assets that are out there and maybe could be tempting for a manufacturer with a pretty clean balance sheet. I don't suspect that you're too eager to move in a more commodity-oriented direction. But, I guess I'm just curious if there is an opportunity to leverage Jennie-O into chicken in a more value-added way and whether that brand has been tested as a sort of as a chicken brand with consumers?

**<A - Jeffrey Ettinger>**: Chris, we haven't really tested that brand -- as a chicken brand. We do have items -- meal-based items within our portfolio that we utilize chicken and we would -- we see that as a potential area of expansion. But, we really are not interested in getting into any verticality in the chicken segment. We recognize we couldn't -- that would be a huge change to our company to be a big player in chicken and it's a very volatile business. It doesn't really meet the kind of long-term steady growth that we want to deliver to our shareholders. So, you should see more products with chicken from us in various parts of our business potentially, including Jennie-O. They do have a deli item for example that's a chicken-based item under the Jennie-O Turkey Store brand that has sold well for a number of years. But, I don't see us getting into the kind of businesses I think you are referring to.

**<Q - Christopher Bledsoe>**: So any asset purchases on that front would be more to fulfill internal requirements rather than to sell commodity-based product?

**<A - Jeffrey Ettinger>**: That's correct.

**<Q - Christopher Bledsoe>**: Okay. And, then, also, on the chicken front, if we do see more permanent capacity elimination there, is that historically -- I mean, I guess there is not a lot of historical precedent, but would you expect that to be a positive for turkey pricing?

**<A - Jeffrey Ettinger>**: Yeah. I mean, it's not a -- the influence tends to be more on the export side. I mean, when you get into the retail grocery store, chicken is a major feature item all the time whereas turkey is really more of a niche item and so there is less direct relationship there. But, it certainly is more favorable than not in terms of not -- it's never good in our industry to have a particular glut in any particular area of the protein.

**<Q - Christopher Bledsoe>**: Okay. And, then, I guess in keeping with the challenge protein theme, are you seeing right now just anecdotally anyway, any hog producers that are kind of close to any of the chicken guys where they are experiencing or maybe facing bankruptcy in fairly short order?

**<A - Jeffrey Ettinger>**: No. I mean, we keep in close contact with our grower network. Clearly, these are much more challenging economic times for them than what they enjoyed during the early part of this decade. A number of the better run operations really built up some fairly significant equity in their operations though during the three to four year run that was more positive. Clearly, the current term reduction in grain costs has been favorable to them and gives them a more positive outlook heading forward. But, could you have on a case-by-case basis, yes and that's something we would watch out for. But, there is nothing rampant going on that we see in our network.

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<Q - Christopher Bledsoe>: Okay. My last question is just you had mentioned I think being exposed on hedges above current market prices and I was just wondering if you could quantify any mark-to-market losses that you had in the quarter.

<A - Jeffrey Ettinger>: In the quarter?

<A - Jody Feragen>: We use hedge accounting. So, we don't mark-to-market through our P&L.

<Q - Christopher Bledsoe>: Yeah. Got it. Okay. Thank you very much.

## Operator

Next questions come from Akshay Jagdale. Please state your company name followed by your question.

<Q >

Good morning. It's Akshay from KeyBanc Capital Markets. How're you doing?

<A - Jeffrey Ettinger>: Hi, Akshay.

<Q>: Hi. I want to just focus a little bit on the Refrigerated Foods here. Have you -- I mean, I don't if you stated in giving your guidance. I mean, do you expect profits in Refrigerated Foods to be down next year or flat or what are you modeling? Are you willing to say that at this point?

<A - Jeffrey Ettinger>: I expect modest growth on a full year basis out of Refrigerated Foods. They could have more challenges given the comps I referred to earlier in generating a positive segment profit in the first half of the year. But, if you look at the full year, that's our expectation.

<Q>: Okay. The reason I ask that is because I was running some numbers and I know you are not comfortable giving out a projection for hog costs, but I just wanted to run some numbers by you, because what I'm trying to get at is you -- I think you alluded to about a 3% reduction in supply, is what you think generally is going to happen with pork next year. So I'm trying to look at what it's going to take for you guys on the pork -- on the cutout to get to let's say flat year-over-year profits, right, so that would imply that on my numbers you would have to get almost a 16% increase in the pork cutout price next fiscal year for you to have similar profit per pound going forward. So the way I'm doing that math is I'm looking at futures which point to about a \$54 live price in your fiscal year '09. And I mean I'm assuming that the drop value stays the same as this year. But I'm just trying to understand -- I mean what kind of -- can you give us some guidance on what you're assuming for pricing because that's really what I'm getting to is you're talking about a 3% reduction in supplies, which could be debated whether that's going to happen given what's going on in -- on the liquidation front right now, but assuming that happens what kind of a pricing increase do you need on the pork cutout to be able to get to flat year-over-year EBIT for Refrigerated Foods?

<A - Jeffrey Ettinger>: Well, Akshay, I really would have a hard time responding to a detailed modeling question on the fly here and some of that information we really don't disclose on a regular basis. The other thing I guess I would point to though when you look at Refrigerated Foods is for us it really all comes back to that we're building branded food franchises. And so yes, there is an element of the results of Refrigerated Foods are going to be affected by the pork part of the business both in terms of the supply and the fresh meat values, but we also have to factor in our Food Service business, our Meat Products business, our branded items, the advertising we do on those items and so forth. So really the best I can do is refer you back to what we just talked about in terms of our expectations for the business overall. It's been a wonderful growing business for us. They are coming off of a fantastic year in 2008. They had particularly strong results in the first half of '08 that we've talked about are going to be hard to match against, but overall I would expect modest growth out of them in '09. And then after that frankly have then come back to what our historical long-term guidelines of our 5% revenue growth and 10% earnings growth as you head into future years.

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<Q>: That's helpful, just one more follow-up if I may. Just focusing on the supply side, so you're -- am I right in understanding that you think there is going to be a 3% reduction in overall pork supplies in '09?

<A - Jeffrey Ettinger>: Yes, that's what we're factoring in to our numbers for our fiscal year. I mean you may time it differently if you look at other companies on other fiscal years, but that's our best shot at it right now.

<Q>: So what does that imply in terms of -- that's got to be more than a 3% reduction in the herd, right, because you continue to see positive productivity numbers, so I would assume that you are thinking that the herd numbers are going to come down significantly.

<A - Kevin Jones>: Akshay, maybe you can contact me after the call and I can give you a little bit more of that detail.

<Q>: Okay.

<A - Kevin Jones>: Do you have another question that's...?

<Q>: No, no, that's it. I'll follow up later on.

<A - Jeffrey Ettinger>: Thanks.

<Q>: Yeah.

## Operator

Next questions come from John McMillan. Please state your company name followed by your question.

<Q>: Lord, Abbett. Happy Thanksgiving, everybody.

<A - Jeffrey Ettinger>: Hello, John. There's a familiar voice.

<Q>: Yeah, I'm still here.

<A - Jeffrey Ettinger>: Good.

<Q>: I'm sure Joel's on somewhere too. Now, these hedges, I mean historically you never hedged chicken feed -- turkey feed cost, did you? When did that change?

<A - Jeffrey Ettinger>: We started getting involved in hedging about four years ago.

<Q>: Is that right, there you go, okay. So this is not something that you just picked up and picked the wrong time to do it, okay.

<A - Jeffrey Ettinger>: That's correct. In fact it was very beneficial in 2008.

<Q>: And basically these hedges last through how long did you say?

<A - Jeffrey Ettinger>: Well, really in grain, I mean the most you can hedge out at any given time is 18 to 24 months. What we're talking about right now is 2009.

<Q>: Okay. Thanks a lot.

<A - Jeffrey Ettinger>: Sure, John.

<A - Kevin Jones>: Operator, how many more calls are in queue?

## Operator

There appear to be no further questions, sir.

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<A - Kevin Jones>: Very good.

## Operator

Please go ahead with any points you wish to raise, sir.

## Kevin C. Jones, Director of Investor Relations

Okay. Thank you for joining us today and have a happy Thanksgiving everyone.

## Operator

This concludes today's conference call. Thank you for participating. You may disconnect your line now.

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